The Real Estate TRENDS

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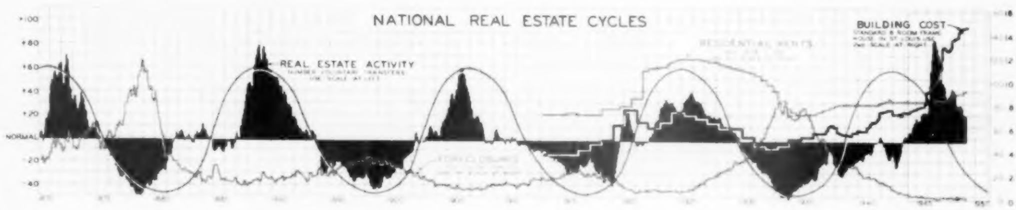
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS



THIS page is a return to the form of presentation we used several years ago. Then, as now, we were anxious to present just as clear a picture as possible of developments in real estate activity, rentals, building costs and foreclosures. While we expect nothing startling to occur in any of these fields during 1949, we will run these two charts occasionally in order to give our clients a closer look at the national picture.

The chart at the top of the page shows the familiar real estate activity cycle with its blue areas representing periods of above or below normal. The blue line traces the course of construction costs from 1913 to the present. The red lines (solid, foreclosures and dotted, residential rents) are charted as indexes. The activity cycle is read from the scale at the left and the three lines are read from the scale at the right. The larger chart at the left is a blown-up drawing of the boxed-in section of the top chart.

Real estate activity is approximately at the level it occupied during most of 1927, or, for the sake of those clients who cannot recall that period of 22 years ago, it is on a level with the period immediately following World War II.

REAL ESTATE ACTIVITY

Preliminary figures on real estate activity show that January 1949 recorded a slight rise over December 1948. The January figure is 22.5 points above the long-range computed normal, compared with the December figure of 22.0.

We have recently obtained additional real estate activity figures which enable us to revise our data for the 18 months prior to January 1949. The old figures and the revised ones are shown below.

1947	Old	Revised	1948	Old	Revised	1948	Old	Revised
July	38.4	38.3	Jan.	42.4	43.0	July	30.8	31.8
Aug.	38.5	38.5	Feb.	41.6	39.4	Aug.	31.6	32.6
Sept.	41.0	41.0	Mar.	36.5	37.4	Sept.	27.5	28.8
Oct.	42.8	42.9	Apr.	31.5	32.5	Oct.	22.5	23.5
Nov.	44.6	44.5	May	26.5	27.4	Nov.	21.8	23.0
Dec.	44.3	44.6	June	30.5	30.0	Dec.	21.3	22.0

Although the very slight recovery achieved during the past month may continue for a short while, we believe that by the end of this year real estate activity will show a drop to about 8 or 10 points above the long-term computed normal.

REAL ESTATE MORTGAGE ACTIVITY

After steadily falling for nine months, real estate mortgage activity inched upward slightly during November and December 1948. From its recent low point of 160.3 reached in October of last year, the index rose to 162.9 in November and 164.2 in December.

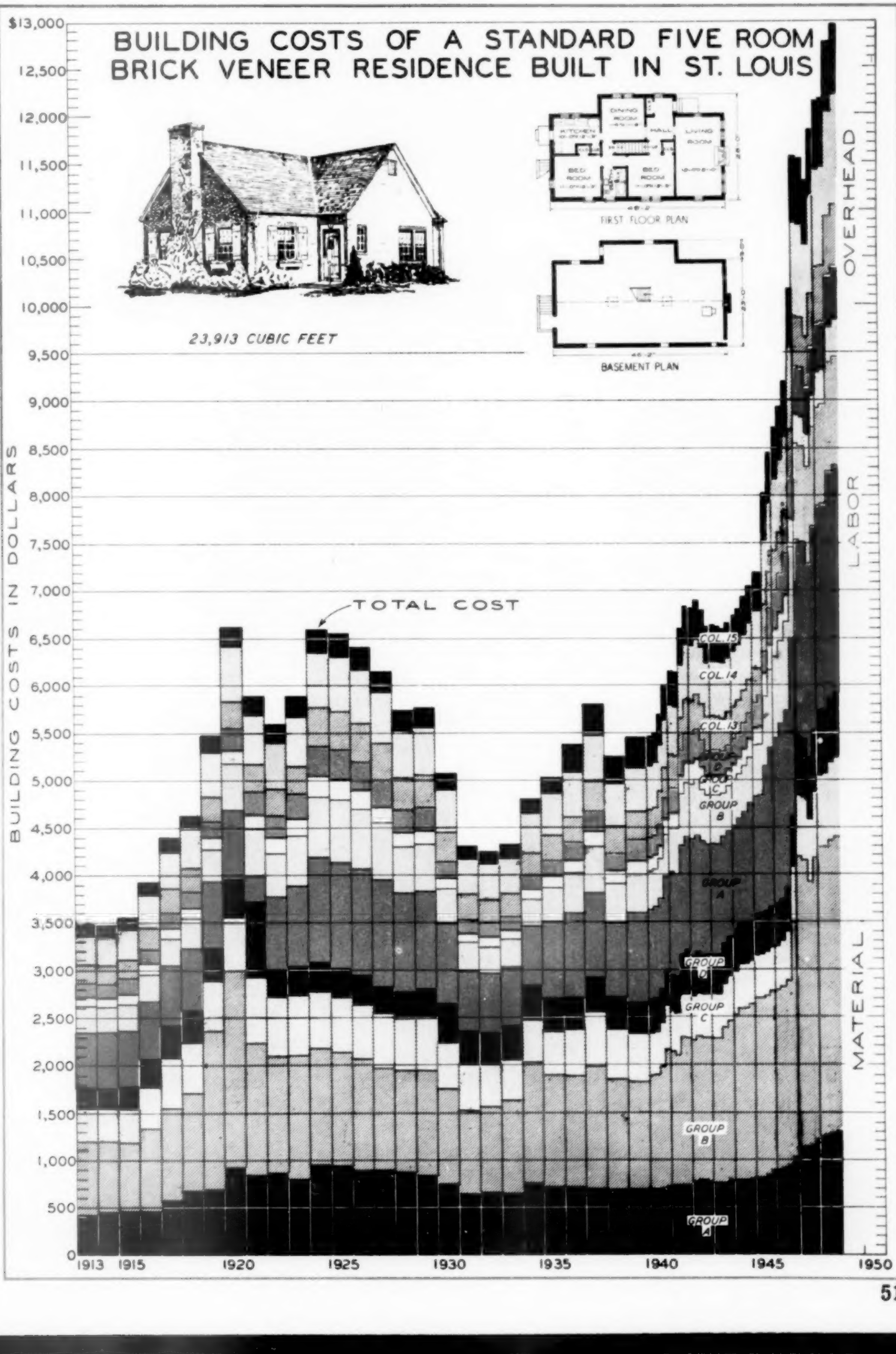
The outlook for mortgage activity still seems to be one of a gradual downward trend - naturally influenced by dropping real estate activity and the prospective decline in residential construction volume.

There is a great deal of housing legislation under discussion before Congress. Just how much of this proposed legislation Congress accepts and what riders or amendments become a part of it is a vital factor in the future of real estate financing. Since the tide seems to be running strongly toward greater government participation in many fields of private enterprise, it is a reasonable assumption that the housing legislation to be passed will contain some provisions for further inflating mortgage credit. The barrier in the path of most prospective buyers is the height of the down payment on most new houses. Further easing of credit may enable many more buyers to climb to the top of this barrier. Characteristically, very little thought is being given as to how they will get down on the other side - or how many innocent by-standers will be hurt by the falling bodies.

RENTS

Since rent controls were imposed in 1942, the rent index has risen approximately 10%, while other cost of living items have reached all-time highs. The rent-paying ability of tenants as evidenced by wage indexes has also reached an all-time high.

It seems to us that an enormous amount of fiction has been circulated regarding the financial status and amount of property owned by the average landlord. The



BUILDING COSTS OF A STANDARD FIVE ROOM BRICK VENEER RESIDENCE BUILT IN ST. LOUIS
23,913 CUBIC FEET
DINING ROOM
KITCHEN
HALL
LIVING ROOM
BED ROOM
BED ROOM
FIRST FLOOR PLAN
BASEMENT PLAN
BUILDING COSTS IN DOLLARS
$13,000
12,500
12,000
11,500
11,000
10,500
10,000
9,500
9,000
8,500
8,000
7,500
7,000
6,500
6,000
5,500
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
TOTAL COST
COL. 15
COL. 14
COL. 13
GROUP D
GROUP C
GROUP B
GROUP A
GROUP D
GROUP C
GROUP B
GROUP A
OVERHEAD
LABOR
MATERIAL
1913
1915
1920
1925
1930
1935
1940
1945
1950

SHRINKAGE IN PURCHASING POWE

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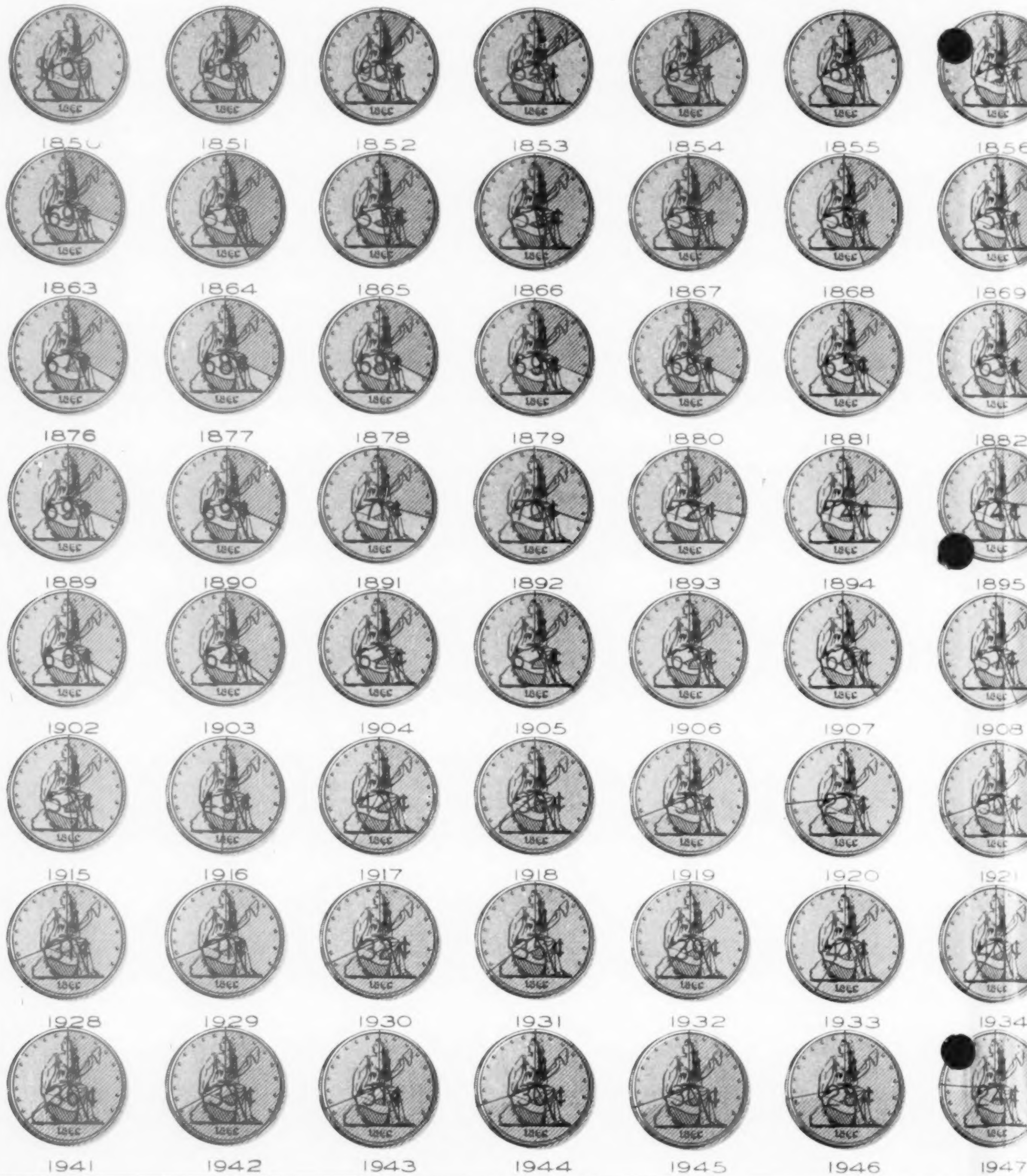
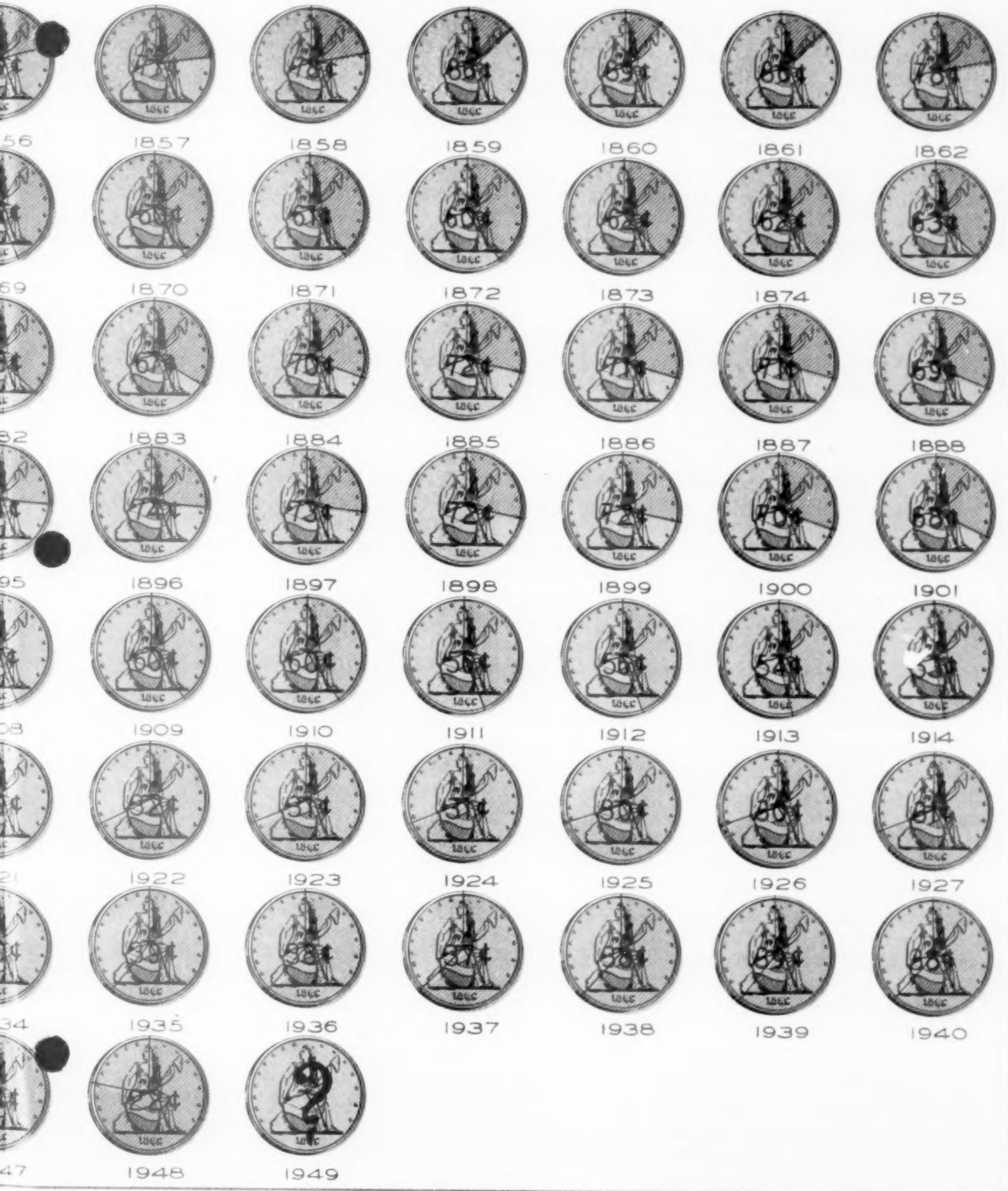


ER OF THE DOLLAR SINCE 1850

NZLICK & CO. - 1949



popular version portrays the landlord as an owner of vast amounts of real estate, as a man of high position and wealth and, by intimation at least, as something of a Shylock. He has been built up as an economic bogey-man whose sole aim in life is to profiteer at the expense of his hapless tenants. Between the mid-Victorian monster and the people stands that knight in shining armor, the Housing Expediter, from the court of the Fair Deal.

This version has obtained widespread popularity, even among otherwise well-informed and fair-minded people. It has quite naturally achieved particular popularity among the renting class, some of whom we suspect have seized upon this convenient piece of propaganda as a pleasant sounding salve to their conscience.

We have pointed out many times in our reports that the majority of property holders were people of modest means, and that they owned small holdings - such as a bungalow or two or a small flat or apartment.

We were, therefore, greatly pleased to see that a recent survey by Rev. Edward A. Keller, director of economic research at the University of Notre Dame, bore out our conclusion. In his survey "The National Income and Its Distribution" Rev. Keller reveals that 83.1% of all rents are collected by owners whose total annual incomes are less than $5,000 per year.

Since the remaining 16.9% of the nation's total rents are collected by owners of larger incomes and logically larger buildings (with a greater number of units), it seems reasonable to assume that this 16.9% of the rents may be collected by, say, 10% of the property owners, thereby leaving the 83.1% of rents to be collected by 90% of the property owners - or, in other words, 90% of the landlords of the country have incomes of less than $5,000 per year. This last is a guess on our part but seems to be a fairly well-substantiated guess.

There is another portion of our rent control law that is often referred to with too much glibness, the hardship clause. Why this clause should be considered such an act of magnanimity is difficult to understand. When virtually every wage earner and enterprise in the country is making more money than ever before - while the entire nation has been enjoying the most bountiful boom in history - the landlords, if they can prove they are losing money, may be given permission to break even.

The treatment of the property owners since 1942 has been the outstanding example of unfairness and discrimination in the history of the country. Unfortunately, this treatment will apparently grow worse before it gets any better. The end of rent control or even some slight alleviation is not in sight.

CONSTRUCTION COSTS

The cost of building our standard six-room frame house in St. Louis rose slightly once more in February to a new high of $14,694. During the post-war price spree the cost of building this house increased 21% in 1945, 32-1/2% in 1946, only 6% in 1947 and 7% in 1948. The increase since January 1945 has been from $8,064 to $14,694, a rise of 82%. Very probably by spring declines in construction costs will be apparent and by the end of 1949 the cost of building the six-room frame house will range between $13,500 and $14,000.

Small sporadic price increases continue to be recorded in several lines, but most retail building material prices have been fairly stable and retail lumber prices have dropped about 5% from their peak. However, the February increase of $23 over January in the total cost of the house was accounted for almost entirely by a raise in the wages of tile setter helpers.

We have heard several reports to the effect that unemployment in the building trades has been increasing at slightly more than the seasonal pace. We believe this to be true and expect higher productivity to begin to cut into construction labor costs this spring.

RESIDENTIAL CONSTRUCTION

Preliminary estimates place the number of nonfarm residential starts at 50,000 for January 1949. In view of the severe weather over a good portion of the country this amount compares very favorably with the 52,600 starts in January 1948.

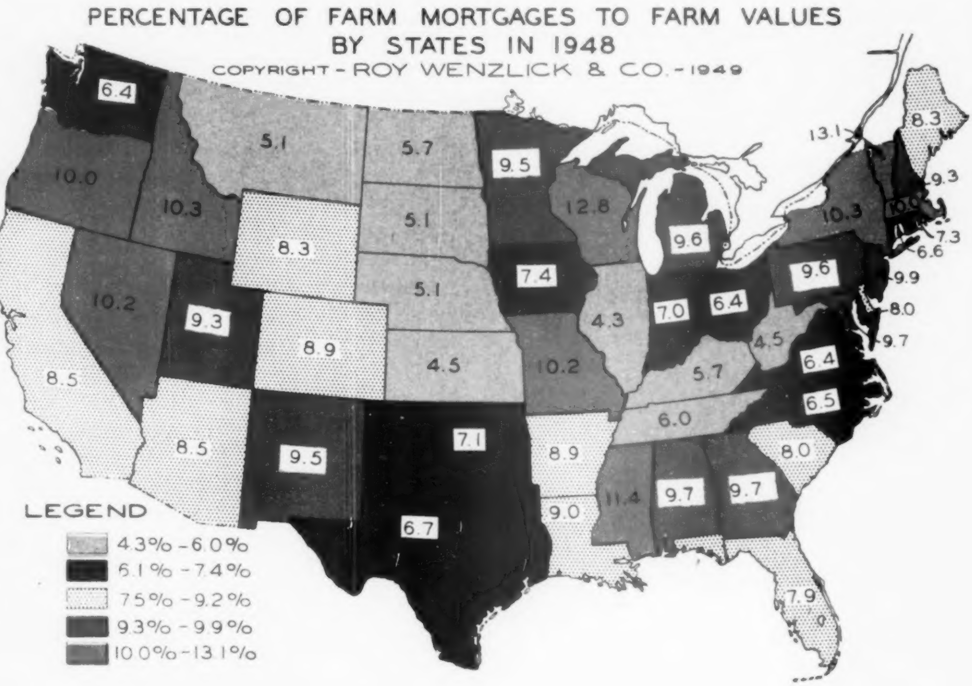
During the next few months there will be many wild schemes on housing proposed to the Administration and to Congress. We doubt, however, whether any of them will be wilder than the recent proposal made by Walter Reuther. Why Mr. Reuther should be considered qualified to speak on housing becomes even more amazing in view of his suggestion to utilize war surplus airplane plants to turn out 2,000,000 aluminum houses per year - for less than $6,000 each. His idea seems to be to extend this program for ten years. During the war our aluminum supplies were severely strained to produce 100,000 airplanes a year. While aluminum production could probably be greatly increased over a period of years, it is extremely doubtful whether we could produce enough in the next year or so to build 2 million two-bedroom houses annually. The problem of finding labor to build the aluminum houses would also be formidable since ordinary building mechanics, working with unfamiliar tools and materials, would be of little use. There is little in the years of experience of the prefabricated housing manufacturers to indicate that such tremendous production of suitable houses can be quickly attained. We have felt for some time that prefabricators can solve many of our housing problems but that it will take them longer to do so than most people, including Mr. Reuther, seem to realize.

VALUE OF THE DOLLAR

On pages 52 and 53 are shown the effects of the pernicious anemia that has afflicted the purchasing power of our dollar. In roughly 100 years the value of the dollar has fallen to 22% of its 1850 value of 100¢. It reached its lowest level in 1948 when it fell to 22¢.

Following the inflation of the Civil War the dollar beat a slow and painful path toward recovery and in 20 years attained about 81% of the immediate pre-Civil War purchasing power. During the drop in value the dollar fell from 89¢ to 53¢, a drop of 40%. In contrast, the inflation of World War II tumbled the dollar from 39¢ to 22¢, a drop of 43%.

If the same pattern is followed, the dollar can be expected to climb eventually to about 81% of the 1939 figure of 39¢, or to a value of approximately 32¢. A dollar as valuable as the one of 1939 is certainly beyond the foreseeable future.



DURING the period from 1946 to 1948 most of the States recorded somewhat higher percentages of farm mortgages to farm values. The country as a whole, however, showed a decrease from the 1946 figure of 8.1% to the January 1948 figure of 7.5%. This means that the total dollar volume of mortgages held against farm real estate in the United States was equal to 7.5% of the value of that farm real estate in January 1948, while in January 1946 the percentage was 8.1. During the farm boom of the twenties this figure varied between 16% and 21%. In 1934 it rose to 27.5%. The map above shows the percentage of farm mortgages to farm values in the different States in January 1948.

Although about two-thirds of the States showed mortgage dollar volume increasing faster than their farm values, there were several States where the reverse was true. These States were Iowa, North Dakota, South Dakota and Nebraska. This was brought about both by a lower dollar volume of mortgages held against the farms in these States in 1948 and by fairly substantial rises in the value of their farm lands since 1946.

While up-to-date statistics are not available on the dollar volume of farm mortgages by States, indications are that the increases in farm land values which took place during 1948 could absorb a considerable rise in mortgage dollar volume without changing the national average figure of 7.5%.